

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

LEIGH C. FORD

JUNE 3, 2011



DOCKET NO. 2010-181-E

**Application of Lockhart Power Company for
Adjustment of Rates and Charges**

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FOR

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**IN RE: APPLICATION OF LOCKHART POWER COMPANY FOR
ADJUSTMENT OF RATES AND CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Leigh Ford. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Electric Utilities Specialist in the Electric Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I earned a Bachelor's Degree from Lenoir-Rhyne University and prior to my employment with ORS I was a Field Service Representative with the South Carolina Budget and Control Board. I joined ORS in November 2007 as an Electric Utilities Specialist and was promoted to Senior Electric Utilities Specialist in May 2010.

**Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THE PUBLIC
SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?**

1 **A.** Yes, I have. I testified before this Commission in fuel and rate
2 proceedings. I also presented an allowable ex-parte briefing regarding renewable
3 resources and their role in South Carolina's electric generation portfolio.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 **A.** The purpose of my testimony is to summarize the Electric Department's
7 examination of the inclusion of additional generating facilities and certain
8 accounting and pro forma adjustments in Lockhart Power Company's ("the
9 Company" or "Lockhart") Application for an adjustment of rates and charges.

10 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE ADDRESSING IN**
11 **YOUR TESTIMONY.**

12 **A.** My testimony addresses the Company's proposed adjustments pertaining
13 to the addition of the Union Diesel Generators, the City of Union interim contract
14 payments and the addition of the Wellford Landfill Gas generation facility. My
15 testimony also addresses the amortization of costs and the Company's proposed
16 adjustments related to transmission study expenses. Additionally, my testimony
17 discusses ORS's proposed adjustments to test year expenses related to dam debris
18 removal, generator repair costs, customer growth, and the remaining adjustments
19 for which the ORS Electric Department is responsible.

20 These adjustments, more fully discussed below, were provided by the
21 ORS Electric Department to the ORS Audit Department and can be seen in Audit
22 Exhibit SGS-2 of ORS witness Sharon Scott's Direct Testimony.

1 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED INCLUSION OF THE**
2 **UNION DIESEL GENERATORS IN ITS FLEET.**

3 **A.** Currently, Lockhart purchases approximately 75-80% of its customer
4 requirements from Duke Energy Carolinas ("Duke"). Lockhart's demand costs are
5 calculated on the Company's demand during Duke's one-hour annual system
6 peak. Any reduction in Lockhart's demand during this one-hour peak will
7 therefore decrease their customer's purchased power costs.

8 In order to help lower purchased power costs, the Company recently
9 acquired four 1,825 kilowatt ("kW") diesel peaking generators ("Generators")
10 from Union County at a below net book value cost of \$1.5 million. This 7.3
11 megawatt ("MW") facility (four 1.825 MW units) was built in 2005 and is very
12 similar to the Pacolet diesel generating units Lockhart purchased in 2006. The
13 Company plans to primarily run these Generators during Duke's system peak
14 demand time(s) to reduce its purchased power costs. ORS verified the estimated
15 savings from the utilization of the Generators. This reduction to purchased power
16 expense is shown in Adjustment 3a in ORS witness Scott's Exhibit SGS-2.

17 The Company proposes to include this asset and associated expenses in
18 base rates. The ORS Audit Department verified the amounts in Plant in Service
19 and Construction Work in Progress ("CWIP") and updated these amounts through
20 March 31, 2011. The corresponding depreciation expense, accumulated
21 depreciation and property taxes were also updated.

22 Using the average operating and maintenance ("O&M") expenses of the
23 Company's existing diesel generating fleet, Lockhart proposes making an

1 adjustment to production expenses to account for the Generators' O&M expenses.
2 Additionally, the Company proposes decreasing purchased power costs to
3 recognize the peak shaving benefit of the Generators. ORS evaluated the
4 Company's adjustments and determined that the inclusion of these Generators is
5 economically beneficial to Lockhart's customers.

6 **Q. DID ORS REVIEW THE COMPANY'S ADJUSTMENT FOR THE CITY**
7 **OF UNION DIESEL PLANT INTERIM CONTRACT PAYMENTS?**

8 **A.** Yes. Lockhart and the City of Union entered into an interim power
9 purchase agreement to bridge the expiration of the existing contract and the
10 purchase of the Generators by Lockhart. The Company's adjustment removes
11 these non-recurring purchased power expenses from the test year. ORS Audit
12 Department verified the adjustment of (\$140,786) and ORS agrees with the
13 Company's pro forma adjustment. This is reflected in ORS witness Scott's
14 Adjustment 3b in Exhibit SGS-2.

15 **Q. PLEASE DESCRIBE LOCKHART'S INVESTMENT IN THE**
16 **WELLFORD LANDFILL GAS GENERATING FACILITY.**

17 **A.** Lockhart made an investment in a 1.6 MW landfill gas generating unit at
18 the Wellford Landfill in Spartanburg County ("Wellford"). While the Company
19 proposes including this facility in base rates, the electricity generated at Wellford
20 will not initially be used to serve Lockhart's customers. The Company has
21 negotiated a long-term agreement for the sale of the electricity and the associated
22 renewable energy attributes generated by Wellford. The electricity generated is
23 being sold at a premium and Lockhart proposes flowing back to customers the

1 revenues from these off-system sales. This will allow Lockhart's customers to
2 receive a greater financial benefit than if this generation was used to directly serve
3 Lockhart's customers.

4 The ORS Audit Department verified and updated the amount in Plant in
5 Service for Wellford through March 31, 2011. Subsequent to ORS's audit, the
6 Company received a refund from the project contractor reimbursing Lockhart
7 \$448,787 in costs that were the responsibility of Spartanburg County. ORS
8 removed this amount from Plant in Service, resulting in a net adjustment of
9 \$2,293,404. This is reflected in ORS witness Scott's Adjustment 13a in Exhibit
10 SGS-2.

11 CWIP was also verified and updated through March 31, 2011. The
12 corresponding depreciation expense, accumulated depreciation and property taxes
13 were also verified and updated.

14 **Q. WILL YOU ADDRESS LOCKHART'S PROPOSED ADJUSTMENTS TO**
15 **REVENUE RESULTING FROM WELLFORD?**

16 **A.** Yes. Lockhart proposes a pro forma adjustment to increase test year
17 revenues to account for the off-system sale of Wellford's generation. ORS used a
18 12-month average to calculate the estimated sales from Wellford generation rather
19 than the 21-month average proposed by the Company. This results in
20 approximately \$90,000 in additional revenues being flowed back to customers on
21 a system basis. There is a corresponding adjustment to reduce revenues that are
22 passed through to customers via the power adjustment clause. These adjustments
23 are reflected in ORS Audit witness Scott's Adjustments 2 and 1c, respectively.

1 **Q. PLEASE ADDRESS THE COMPANY'S PROPOSED ADJUSTMENT TO**
2 **EXPENSES FOR WELLFORD.**

3 **A.** Lockhart also proposes to adjust O&M expenses by approximately
4 \$256,000 to account for the additional costs of operating Wellford. In the
5 Company's filing, Lockhart estimated that 50% of the costs of certain Wellford
6 expenses would be allocated to Lockhart based on a proposed agreement between
7 the Company and Spartanburg County. The final cost sharing agreement only
8 allocates 25% of these expenses to Lockhart. Therefore, ORS recommends
9 reducing O&M expense by \$3,289 on a system basis to recognize the actual cost-
10 sharing between Lockhart and Spartanburg County. This adjustment is reflected
11 in ORS witness Scott's Adjustment 4b to Exhibit SGS-2. Correspondingly, ORS
12 recommends only including 25% of a Wellford employee's salary in the labor
13 adjustment rather than the 50% proposed by Lockhart. This adjustment is
14 reflected in ORS witness Scott's Adjustment 5 on Exhibit SGS-2.

15 **Q. WHAT IS ORS'S RECOMMENDATION AS TO THE INCLUSION OF**
16 **WELLFORD IN LOCKHART'S FILING?**

17 **A.** ORS reviewed the Company's purchase and agrees that the inclusion of
18 Wellford is beneficial to the Company's customers. ORS recommends including
19 this asset and the associated expenses in base rates, as adjusted by ORS.

20 **Q. WILL YOU ADDRESS THE AMORTIZATION PERIOD FOR CERTAIN**
21 **EXPENSES REQUESTED BY LOCKHART AND ORS'S**
22 **RECOMMENDATION?**

1 **A.** Yes. The Company proposes amortizing certain expenses, such as rate
2 case and transmission study expenses, over two years. ORS typically recommends
3 an amortization period that reflects the expected time period between requests for
4 rate increases for a particular company. This offers reasonable assurance that the
5 appropriate expenses are included in the test year. In Lockhart's prior filing for an
6 increase in base rates, the Commission approved a 3-year amortization period for
7 certain expenses in Order No. 2007-474. Although a 3-year amortization period
8 has been used historically, ORS recommends amortizing costs over two years in
9 this filing. Lockhart anticipates making additional, substantial capital investments
10 in the next year, which would result in the Company filing more frequently than
11 in prior years. Because of this, ORS determined that a 2-year amortization period
12 is an appropriate recovery mechanism in this filing.

13 **Q. PLEASE EXPLAIN THE COMPANY'S REQUEST TO AMORTIZE**
14 **COSTS ASSOCIATED WITH A TRANSMISSION STUDY.**

15 **A.** In 2006, Lockhart initiated a study of the Company's transmission system
16 due to a potential increase in system load from an industrial customer. Subsequent
17 to this study, that industrial customer did not increase their load as expected and
18 another large industrial customer ceased operations, rendering the study's
19 recommendations unnecessary at this time. The total cost of this study is \$162,537
20 and is included in the test year. ORS recognizes that these costs were appropriate
21 and agrees with the Company's proposal to remove these costs from the test year.
22 ORS concurs that a 2-year amortization period for recovery of these costs is

appropriate. This adjustment is reflected in ORS witness Scott's Adjustment 6b in Exhibit SGS-2.

Q. WHAT ADDITIONAL ADJUSTMENTS TO EXPENSES DOES ORS RECOMMEND?

A. In its review, ORS analyzed historical and test year expenses to determine if appropriate expense levels were included in the test year. During this review, ORS recognized that in 2009 the Company spent an additional \$19,628 to hire an outside contractor to remove accumulated debris from the dam. ORS concluded that these were appropriate expenses but determined that they were of a non-recurring nature. Therefore, ORS recommends amortizing these additional, non-recurring expenses over two years. The result is a decrease of \$9,814 in test year expenses and is reflected in ORS witness Scott's Adjustment 4e in Exhibit SGS-2.

Q. DOES ORS RECOMMEND ADDITIONAL ADJUSTMENTS TO EXPENSES?

A. Yes. During review of test year expenses, ORS determined that Lockhart performed extensive maintenance to a generator and several field poles during the test year. These expenses totaled \$43,340 and are included in the test year. ORS determined these to be extraordinary maintenance activities and recommends amortizing these additional non-recurring expenses over two years. The result is a \$21,670 decrease in test year expenses which is reflected in ORS witness Scott's Adjustment 4f to Exhibit SGS-2.

Q. WHAT IS ORS'S RECOMMENDATION AS TO THE COMPANY'S ADJUSTMENT FOR CUSTOMER GROWTH?

Lockhart calculated customer growth using the standard regulatory approach historically used and accepted by this Commission for many years. In this case, the customer growth factor was determined by taking the number of Lockhart's retail customers at the end of the test year and dividing it by the average number of customers for the test period to obtain the appropriate factor to apply to the retail net operating income after adjustments. Due to a decrease in the amount of retail customers during the test year, Lockhart proposes using a negative customer growth 'factor'. Typically, a negative customer growth factor is not utilized and no adjustment is made. Therefore, ORS proposes removing the Company's adjustment for Customer Growth. This adjustment is reflected in ORS witness Scott's Adjustments 12 and 20 in Exhibit SGS-2.

Q. PLEASE EXPLAIN THE REMAINING PRO FORMA ADJUSTMENTS NOT PREVIOUSLY COVERED FOR WHICH THE ELECTRIC AREA IS RESPONSIBLE.

A. The ORS Electric Department extensively reviewed and analyzed the Company's proposed adjustments pertaining to the Power Adjustment Clause, the impact of the Monarch Plant closing, the Duke true-up for 2009 and the removal of the training grant credit. ORS concurs with the Company's adjustments and these are reflected in ORS Witness Scott's calculations.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.